

Message Text

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SUBJECT: BUDGET RESULTS FOR 1975 AND REVISED ESTIMATES FOR 1976

REF: COLOMBO 4112

1. SUMMARY: RELATIVELY MODEST INCREASE IN REVISED ESTIMATE OF TOTAL EXPENDITURES COUPLED WITH LOWER THAN EXPECTED REVENUE GROWTH PRODUCED RECORD HIGH BUDGET DEFICIT CURRENTLY PROJECTED FOR 1976. USE OF BANKING SYSTEM TO FINANCE A PORTION OF DEFICIT IMPORTANT FACTOR IN RAPID EXPANSION OF MONEY SUPPLY THIS YEAR.END SUMMARY.

2. IN NOVEMBER 3 PRESENTATION OF 1977 BUDGET (REFTEL), FINANCE MINISTER ALSO PROVIDED DETAILS ON ACTUAL RESULTS OF 1975 BUDGET OPERATIONS AND PRESENTED REVISED ESTIMATES OF THIS YEAR'S BUDGETARY DEVELOPMENTS. FOLLOWING ARE MINISTER'S FIGURES IN MILLIONS OF SRI LANKA RUPEES:

	APPROVED	REVISED
	ACTUAL	ESTIMATES
	ESTIMATES	ESTIMATES
1975	1976	1976

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NET CURRENT EXPENDITURES 5,153 5,355 5,500

NET CAPITAL EXPENDITURES	1,964	1,837	2,170
SINKING FUNDS; AMORTIZATION	593	649	649
ADVANCE ACCOUNTS	-65	100	100
TOTAL NET EXPENDITURES	7,775	7,941	8,419
TOTAL REVENUE	5,092	5,645	5,475
BUDGET DEFICIT	2,683	2,296	2,944

3. REVISED AMOUNT OF TOTAL NET EXPENDITURES (ADJUSTED FOR UNDEREXPENDITURES) FOR 1976 IS RS. 478 MILLION GREATER THAN BUDGET ORIGINALLY APPROVED BY PARLIAMENT AT END OF LAST YEAR. NET CURRENT EXPENDITURES ROSE AS A RESULT OF SUPPLEMENTARY SPENDING ON EDUCATION, RAILWAYS, AND MALARIA CONTROL. NET CAPITAL SPENDING ROSE EVEN MORE DUE TO ADDITIONAL OUTLAYS FOR EQUIPMENT NEEDED TO MEET FOOD DISTRIBUTION REQUIREMENTS UNDER DROUGHT RELIEF PROGRAM, FOR PURCHASES OF RAILWAY ROLLING STOCK, AND FOR VARIOUS AGRICULTURAL DEVELOPMENT PROJECTS. IN RELATION TO 1975, REVISED TOTAL EXPENDITURES UP 8.3 PERCENT, WHICH IS CONSIDERABLY BELOW 21 PERCENT INCREASE IN TOTAL SPENDING RECORDED IN 1975.

4. ALTHOUGH THIS YEAR'S INCREASE IN EXPENDITURES IS RELATIVELY MODEST, REVISED ESTIMATES (BASED ON COLLECTIONS IN FIRST HALF OF YEAR) SHOW AN EVEN SLOWER GROWTH RATE OF 7.5 PERCENT OVER 1975. IN FACT, REVENUES NOW APPEAR TO BE RUNNING ABOUT 3 PERCENT SHORT OF APPROVED ESTIMATES. WHILE INCOME FROM CUSTOMS DUTIES AND MOST TAXES REGISTERED REASONABLE GROWTH, REVENUE COLLECTIONS FROM SALE OF FOREIGN EXCHANGE ENTITLEMENT CERTIFICATES (FEECS) NOW ESTIMATED AT ABOUT SAME LEVEL AS 1975 WHICH IS RS. 550 MILLION UNDER APPROVED ESTIMATE. SHORTFALL IN INCOME FROM FEECS PARTLY DUE TO INCREASED IMPORTS OF NON-FEEC ITEMS AND PARTLY DUE TO HIGH FEEC PAYMENTS ON NON-TRADITIONAL EXPORTS. FAILURE OF THIS YEAR'S RICE CROPS MADE IT NECESSARY TO IMPORT MORE RICE AND FLOUR THAN PLANNED WHICH REDUCED AMOUNT OF FOREIGN EXCHANGE AVAILABLE FOR FEEC IMPORTS. ANOTHER FACTOR WAS UNDER-UTILIZATION OF IMPORT ALLOCATIONS.

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5. REVISED ESTIMATES NOW PLACE 1976 BUDGET DEFICIT WELL ABOVE BOTH 1975 (UP 9.7 PERCENT) AND APPROVED ESTIMATES (28.2 PERCENT HIGHER). CURRENT ESTIMATED DEFICIT OF RS. 2,944 IS RECORD HIGH FOR SRI LANKA, AND IS EQUIVALENT TO 35 PERCENT OF TOTAL EXPENDITURES. FINANCING SHOWN BELOW (RS. MILLION):

APPROVED REVISED

	ACTUAL	ESTIMATES	ESTIMATES
	1975	1976	1976
DOMESTIC LOANS		1,039	1,300 1,410
CENTRAL BANK ADVANCE AND			
TAX RESERVE CERTIFICATES	93	--	--
BORROWING FROM GOVERNMENT			
TRUST FUNDS	370	--	60
COMMODITY AID COUNTERPART			
FUNDS	439	250	924
PROJECT LOANS AND GRANTS	675	750	350
TREASURY BILLS	99	--	200
CASH BALANCES	-32	-4	--
TOTALS	2,683	2,296	2,944

6. INCLUDED IN RS. 1410 MILLION IN REVISED 1976
ESTIMATE OF DOMESTIC LOANS IS RS. 240 MILLION BORROWED
FROM COMMERCIAL BANKS AGAINST GOVERNMENT SECURITIES.
THIS AMOUNT PLUS THE RS. 200 MILLION IN TREASURY BILLS
TOTALS RS. 440 MILLION IN EXPANSIONARY DEFICIT FINANCING
THIS YEAR. ACCORDING TO MINISTER, INCREASE IN
COMMODITY AID COUNTERPART IS MAINLY DUE TO RS. 152
MILLION LOAN FROM ABU DHABI (INCLUSIVE OF FFECs AMOUNTING
TO RS. 60 MILLION) AND A RS. 26 MILLION CONVERTIBLE
CURRENCY LOAN FROM PEOPLE'S REPUBLIC OF CHINA. PROJECT
LOANS AND GRANTS WELL BELOW EXPECTATIONS; LARGEST
CONTRIBUTOR WAS WOLD FOOD PROGRAM WITH RS. 148 MILLION.

IN TOTAL, FOREIGN AID FINANCED OVER 43 PERCENT OF
DEFICIT.

7. MINISTER STATED THAT ISSUANCE OF RS. 200 IN TREASURY
BILLS IN FIRST HALF OF YEAR BROUGHT TOTAL OF OUTSTANDING
BILLS TO RSM 2, 550, WHICH IS LIMIT AUTHORIZED BY
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PARLIAMENT IN 1972. IN ORDER TO MEET POTENTIAL CASH
FLOW PROBLEMS AT END OF YEAR, MINISTER ASKED PARLIAMENT
TO RAISE LIMIT TO RS. 3,000.

8. COMMENT: USE OF RS. 400 MILLION IN FINANCING FROM
BANKING SYSTEM HAS BEEN IMPORTANT CONTRIBUTION FACTOR
TO 25 PERCENT INCREASE IN MONEY SUPPLY (MI) IN FIRST
EIGHT MONTHS OF 1976. IF PARLIAMENT INCREASES TREASURY
BILL CEILING, ADDITIONAL EXPANSIONARY DEFICIT FINANCING
CAN PROBABLY BE EXPECTED.
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